

# Audit

# Report



ACCOUNTING PROCEDURES AND CONTROLS OVER  
FINANCIAL DATA SUPPORTING SELECTED  
OTHER DEFENSE ORGANIZATIONS

Report No. D-2000-097

March 9, 2000

Office of the Inspector General  
Department of Defense

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### **Acronyms**

BMDO	Ballistic Missile Defense Organization
DARPA	Defense Advanced Research Projects Agency
DFAS	Defense Finance and Accounting Service
DJAS	Defense Joint Accounting System
JFMIP	Joint Financial Management Improvement Program
OMB	Office of Management and Budget
USD(C)	Under Secretary of Defense (Comptroller)



INSPECTOR GENERAL  
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March 9, 2000

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)  
DIRECTOR, BALLISTIC MISSILE DEFENSE  
ORGANIZATION  
DIRECTOR, DEFENSE ADVANCED RESEARCH  
PROJECTS AGENCY  
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING  
SERVICE  
DIRECTOR, JOINT STAFF

SUBJECT: Audit Report on Accounting Procedures and Controls Over Financial Data  
Supporting Selected Other Defense Organizations  
(Report No. D-2000-097)

We are providing this report for your information and comments. The Under Secretary of Defense (Comptroller) did not respond to the draft report; however, we considered comments from the Directors, Ballistic Missile Defense Organization, Defense Advanced Research Projects Agency, the Defense Finance and Accounting Service, and Joint Staff, in preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. The comments from the Director, Joint Staff, were not fully responsive because they did not specify corrective actions to be taken. As a result of additional audit work, we added Recommendation A.1. directed to the Under Secretary of Defense (Comptroller) and renumbered the recommendations from A.1., A.2., and A.3. to A.2., A.3., and A.4. We request that the Under Secretary of Defense (Comptroller) and the Director, Joint Staff, provide comments in response to the final report by May 8, 2000.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. Charles J. Richardson at (703) 904-9582 (DSN 664-9582) ([crichton@dodig.osd.mil](mailto:crichton@dodig.osd.mil)) or Mr. Marvin L. Peek at (703) 604-9587 (DSN 664-9587) ([mpeek@dodig.osd.mil](mailto:mpeek@dodig.osd.mil)). See Appendix B for the report distribution. The audit team members are listed inside the back cover.

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David K. Steensma  
Deputy Assistant Inspector General  
for Auditing

## **Office of the Inspector General, DoD**

**Report No. D-2000-097**  
(Project No. 9FA-2018)

**March 9, 2000**

### **Accounting Procedures and Controls Over Financial Data Supporting Selected Other Defense Organizations**

#### **Executive Summary**

**Introduction.** The DoD Agency-Wide financial statements include a reporting entity entitled "Other Defense Organizations," which represents a consolidation of financial information from various Defense organizations and funds that use the Treasury Index 97 symbol. In support of our audit of the DoD Agency-Wide financial statements for FY 1999, we audited accounting procedures and controls for the three largest organizations that received full accounting support from the Defense Agency Financial Services Team at the Defense Finance and Accounting Service Indianapolis Center. Those organizations are the headquarters elements of the Ballistic Missile Defense Organization, the Defense Advanced Research Projects Agency, and the Joint Staff. The three headquarters elements received \$1.8 billion in appropriated funds in FY 1999.

**Objectives.** The primary audit objectives were to document and evaluate procedures and controls for recording obligations and to review the validity of unliquidated obligations. We also reviewed procedures for reporting selected financial information used to support the financial statements, and we reviewed the initial use of the Defense Joint Accounting System at the Ballistic Missile Defense Organization. In addition, we reviewed the management controls related to our objectives. See Appendix A for a discussion of the management controls.

**Results.** Obligations recorded for the Ballistic Missile Defense Organization, the Defense Advanced Projects Agency, and the Joint Staff were accurately entered into accounting records and were generally supported by adequate documentation. However, improvements were needed in reviewing the validity of unliquidated obligations, promptly obtaining and recording obligations, training accounting personnel, and establishing effective accounting procedures and controls. Specifically:

- Unliquidated obligations of \$882.3 million from expired appropriations as of June 30, 1999, recorded in the accounting records, were not accurate or reliable (Finding A).
- Of \$808.9 million in reported obligations sampled, \$323.8 million was not entered into accounting records within the required time periods (Finding B).
- The Defense Finance and Accounting Service Indianapolis Center incorrectly increased undelivered orders by \$871.9 million and made at least \$40.8 million in adjustments to balances carried forward that were not entered into the accounting system. Also, standard operating procedures and training were needed to increase employees' awareness of proper accounting methods (Finding C).

- Implementation plans for fielding the Defense Joint Accounting System in support of Other Defense Organizations, and training of accounting personnel in using the system, were not adequate (Finding D).

As a result, the financial statements for Other Defense Organizations will not be reliable, budgetary reports and financial statements will not be consistent, and adjustments made to financial statements and budgetary reports will not be properly supported.

**Summary of Recommendations.** We recommend that the Under Secretary of Defense (Comptroller) incorporate informal guidance requiring DoD Components perform triannual reviews of obligations into DoD Regulation 7000.14-R, track compliance with the requirement, and notify DoD organizations that do not comply. We also recommend that Other Defense Organizations validate unliquidated obligations and report the status of those efforts to the Under Secretary of Defense (Comptroller), and improve controls to ensure that obligations are recorded promptly in accounting records. We also recommend that the Joint Staff enter obligations into a file that is downloaded into the accounting system rather than sending obligation documents to the Defense Finance and Accounting Service for input. In addition, we recommend that the Director, Defense Finance and Accounting Service Indianapolis Center, develop standard operating procedures for its Defense Agency Financial Services Office, ensure that accounting personnel are adequately trained, and develop plans for fielding the Defense Joint Accounting System.

**Management Comments.** The Under Secretary of Defense (Comptroller) did not provide comments on the draft report. The Joint Staff concurred with the recommendations, but did not specify corrective actions to be taken as a result of the recommendations. The Joint Staff did not agree that having the Defense Finance and Accounting Service manually record obligations instead of providing electronic records caused delays.

The Ballistic Missile Defense Organization concurred with the recommendation on the need to review and validate unliquidated obligations and stated that it will prepare and implement procedures to conduct those reviews in March 2000. Both the Ballistic Missile Defense Organization and the Defense Advanced Research Projects Agency agreed to send required reports to the Under Secretary of Defense (Comptroller) on the status of their reviews of obligations. The Defense Finance and Accounting Service agreed to work with the Joint Staff to develop procedures for Joint Staff personnel to enter obligations directly into a file to be downloaded into the accounting records.

The Defense Finance and Accounting Service also agreed to develop standard operating procedures that include quality control checklists and ensure that accounting personnel are adequately trained. Fielding plans for the Defense Joint Accounting System were completed in December 1999. See the Management Comments section of the report for the complete text of management comments.

**Audit Response.** Although the Joint Staff concurred with the recommendations, its comments were not fully responsive because they did not provide specific corrective actions to be taken in response to the recommendations. The accounting office supporting the Joint Staff took an average of 13 days to enter the obligations sampled into accounting records. Therefore, the accounting office was "partially responsible" for the delay in recording obligations. We request that the Under Secretary of Defense (Comptroller) and the Director, Joint Staff, provide comments on the recommendations by May 8, 2000.

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## Background

**Other Defense Organizations.** The DoD Agency-Wide financial statements include a reporting entity entitled “Other Defense Organizations-General Funds.” That entity represents a consolidation of financial information from various Defense organizations and funds that use the Treasury Index symbol 97 (also referred to as Department 97). During FY 1998, the Other Defense Organizations-General Funds reported \$45.2 billion in assets, \$227.5 billion in liabilities, and \$54.6 billion in budget authority. This audit supports our FY 1999 audit of the DoD Agency-Wide financial statements.

**Accounting Support.** The Defense Finance and Accounting Service (DFAS) Indianapolis Center, Indianapolis, Indiana, has an accounting support office known as the Defense Agency Financial Services Office (referred to in this report as the accounting office) that provides various levels of accounting support for at least 18 Other Defense Organizations. This report focused on the three largest organizations that received full accounting support from the accounting office during FY 1999: the Ballistic Missile Defense Organization (BMDO), the Defense Advanced Research Projects Agency (DARPA), and the Joint Staff (the support element for the Office of the Joint Chiefs of Staff). The accounting support included maintaining a general ledger, recording accruals and disbursements, and preparing budgetary data and trial balances for submission to other teams at the DFAS Indianapolis Center, Indianapolis, Indiana, that prepared budget execution reports and financial statements for Other Defense Organizations. Table 1 shows FY 1999 funding authority and obligations, as recorded in accounting records maintained by the accounting office.<sup>1</sup>

**Table 1. FY 1999 Funding and Obligations**

<u>Organization</u>	<u>Funding (millions)</u>	<u>Obligations<sup>2</sup> (millions)</u>
BMDO	\$789.5	\$902.7
DARPA	591.4	652.5
Joint Staff	459.4	466.2

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<sup>1</sup>These figures represent only funds and obligations accounted for by the headquarters elements of the three organizations on accounting systems used by the accounting office. The funding and obligations do not include funds that these organizations allot to the Military Departments because the accounting office does not perform accounting functions for these funds. In this report, BMDO, DARPA, and the Joint Staff refer to the headquarters elements of those organizations and funds that they do not allot to the Military Departments: DoD funding limit designations “2520” for the BMDO, “1320” for the DARPA, and “1220” for the Joint Staff.

<sup>2</sup>Obligations exceeded FY 1999 funding because FY 1999 obligations included obligations from multi-year appropriations received in prior years.

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## **Objectives**

The primary audit objective was to document and evaluate procedures and controls for recording obligations and reviewing the validity of unliquidated obligations. We also reviewed procedures for reporting selected financial information used to support the financial statements, and we reviewed the initial use of the Defense Joint Accounting System (DJAS) at BMDO. In addition, we reviewed management controls related to our objectives. Appendix A discusses the audit scope, methodology, and review of the management control program.

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## Finding A. Reliability of Unliquidated Obligations

FY 1999 accounting records showing \$882.3 million in unliquidated obligations from expired appropriations for BMDO, DARPA, and the Joint Staff were inaccurate and unreliable. The condition occurred because DFAS accounting personnel had not recorded disbursements in the accounting records of those organizations, and BMDO, DARPA, and the Joint Staff did not complete reviews required by the Under Secretary of Defense (Comptroller) (USD[C]) to validate unliquidated obligations. Also, the USD(C) did not track submissions of the required reviews or follow up with organizations that did not submit the required confirmations. As a result, the amount reported as Obligations, Net End of Period in the FY 1999 Statement of Budgetary Resources for Other Defense Organizations will contain material amounts that are not reliable.

### Required Reviews of Unliquidated Obligations

The Under Secretary of Defense (Comptroller) (USD[C]) memorandum, "Quarterly Reviews of Commitments and Obligations," May 14, 1996, requires that funds holders review the validity of recorded unliquidated obligations at least three times each year.<sup>3</sup> The USD(C) considers the May 1996 guidance to be current DoD policy. However that guidance has not been incorporated into the DoD Directives System, as required by DoD Directive 5025.1.<sup>4</sup> USD(C) personnel stated that they are working to incorporate the guidance into DoD Regulation 7000.14-R, the "DoD Financial Management Regulation."

Funds holders are responsible for reviewing the validity of obligations because they take actions that cause obligations to be incurred and are in the best position to determine the accuracy and status of those obligations. To accomplish the reviews, funds holders should aggressively monitor and track the status of their obligations. Although the funds holders (Other Defense Organizations) are not responsible for making or recording disbursements, they should be able to obtain documentation showing whether goods and services have been received after funds are obligated.

The May 14, 1996, memorandum also requires comptrollers of the Defense agencies and the DoD field activities to provide statements to the USD(C) confirming that the required reviews of obligations have been conducted, or provide a full explanation of why the accuracy of obligations cannot be

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<sup>3</sup>Under Secretary of Defense Memorandum (Comptroller), "Quarterly Reviews of Commitments and Obligations," May 14, 1996, requires funds holders to review unliquidated obligations of at least \$50,000 for Operation and Maintenance funds and other operational funds, and obligations of at least \$200,000 for all other funds, three times each year. Obligations that do not meet these criteria should be validated at least annually to substantiate the reliability of year-end budgetary reporting.

<sup>4</sup>DoD Directive 5025.1, "DoD Directives System," June 24, 1994, requires that directive-type memorandums of continuing application issued by various officials assigned to the Office of the Secretary of Defense be reissued as DoD issuances within 90 days.

confirmed and corrective actions taken. The three organizations discussed in this report, BMDO, DARPA, and the Joint Staff, had not submitted the required reports to the USD(C).

Discussions with USD(C) personnel showed that they had not developed a tracking mechanism to determine which organizations were performing the required reviews. Also, USD(C) personnel did not have procedures to follow up with organizations that did not submit the required reports.

## **Reliability of Unliquidated Obligations**

General ledger accounting records for BMDO, DARPA, and the Joint Staff maintained by the DFAS Indianapolis Center accounting office showed \$2.5 billion in unliquidated obligations as of June 30, 1999. The \$2.5 billion consisted of \$1.6 billion from current appropriations and \$882.3 million from appropriations for which authority for new obligations had expired. The unliquidated obligations were significantly overstated. The amounts of recorded unliquidated obligations could have been reduced if BMDO, DARPA, and the Joint Staff had conducted the required reviews.

**BMDO.** Accounting records for BMDO as of June 30, 1999, showing \$806.3 million in unliquidated obligations, were not valid. We selected a judgmental sample of 47 unliquidated obligations (shown as undelivered orders<sup>5</sup>), totaling \$59.4 million, from \$158.6 million in expired appropriations. Points of contact provided to us by the BMDO Comptroller's office stated that only \$1.8 million (3 percent) in unliquidated obligations was valid.

**Table 2. Status of Unliquidated Obligations Reviewed for BMDO**

<u>Obligations</u>	<u>Status</u>	<u>Amount (millions)</u>
21	Goods and services had been received and paid for, but disbursements were not recorded in accounting records.	\$41.0
24	BMDO personnel could not provide information on the status of the obligations.	16.6
<u>2</u>	Unliquidated obligations were valid.	<u>1.8</u>
<u>47</u>		<u>\$59.4</u>

Financial management personnel at BMDO did not perform the required reviews of unliquidated obligations because they had not established procedures for reviewing unliquidated obligations. In FY 1999, BMDO began using a new accounting system, DJAS, and most of its efforts were concentrated on learning the system and correcting problems with DJAS. However, the problems with DJAS did not explain why BMDO had not established procedures in prior years

<sup>5</sup>Unliquidated obligations include undelivered orders (goods and services ordered, but not received) and accrued expenditures unpaid (goods and services received, but not paid for) and are reported as "Obligated Balance, Net - End of Period" on the Statement of Budgetary Resources.

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to review the validity of unliquidated obligations. As a result, the unliquidated obligation balances shown in BMDO accounting records were overstated and could not be supported.

**DARPA.** As of June 30, 1999, accounting records for DARPA, showing \$1.2 billion of unliquidated obligations, were not reliable. The \$1.2 billion included \$573.3 million in unliquidated obligations from appropriations for which obligational authority had expired. During the last half of FY 1999, DARPA began using two contractor personnel to review unliquidated obligations, primarily from appropriations scheduled to close<sup>6</sup> (or cancel) at the end of FY 1999. DARPA personnel also prepared standard operating procedures on how reviews should be performed. The following reviews show the unreliability of unliquidated obligations in accounting records.

**DARPA Contracts.** During the third quarter of FY 1999, DARPA began reviewing \$168.6 million of unliquidated obligations related to DARPA contracts for FY 1993 appropriations that would close at the end of FY 1999. DARPA contacted the DFAS disbursing stations and obtained information on the status of expenditures related to contracts initiated under specific obligations. Using that information, DARPA reconciled the balances on the contracts to determine the status of recorded obligations. DARPA then notified the accounting office of the need to make adjustments. As of September 30, 1999, DARPA personnel had completed reconciliations on \$167.1 million. Of this amount, \$8.7 million represented valid unliquidated obligations. The remaining \$158.4 million represented disbursements paid but not posted by DFAS against those obligations. When DARPA personnel determined the validity of unliquidated obligations for FY 1993 appropriations, they performed a complete reconciliation of contract payments for the contracts containing FY 1993 appropriations, which included appropriations from subsequent fiscal years. As of August 31, 1999, DARPA personnel determined that \$392.0 million in unliquidated obligations reviewed were not valid because DFAS had not posted disbursements for those obligations.

**DARPA Funds Provided to Other Organizations.** DARPA personnel also began reviewing the validity of unliquidated obligations for funds provided to other organizations on a reimbursable basis. These reviews showed that DARPA accounting records for unliquidated obligations were substantially overstated. For example, a sample of 43 confirmation letters sent to organizations that were authorized to expend DARPA funds on a reimbursable basis showed that \$11.4 million of \$21.1 million in recorded unliquidated obligations had already been liquidated.

**Audit Sample.** In addition to the DARPA efforts, we performed a separate review of 15 unliquidated obligations totaling \$39.7 million, which had no transactions in the accounting records for at least 3 years. Of the \$39.7 million in unliquidated obligations, \$6.0 million was valid as of June 30, 1999. Work on the remaining \$33.7 in unliquidated obligations had been completed and funds disbursed, but DFAS had not properly recorded disbursements in the accounting records.

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<sup>6</sup>Section 1552, title 31, United States Code, requires that "on September 30th of the 5th fiscal year after the period of availability for obligation of a fixed appropriation account ends, the account shall be closed and any remaining balance... canceled. . . ."

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Based on the reviews of unliquidated obligations, DARPA personnel agreed that reported unliquidated obligations in the accounting records were substantially overstated. Because DARPA personnel did not perform continuous reviews until FY 1999, they had to research and resolve all the problems that accumulated during the life of various obligations--a difficult and time-consuming task. If DARPA had performed continuous reviews, problems might have been identified as they occurred and resolved more quickly with less time and work.

DARPA reviews of unliquidated obligations during FY 1999, using two full-time contractor personnel, showed a commitment to correct errors in accounting records made by DFAS and to comply with USD(C) policies. In FY 2000, DARPA plans to begin reviewing unliquidated obligations for FY 1997 funds, rather than reviewing the funds scheduled to cancel. Reviews of FY 1997 appropriations and subsequent years should highlight current problems, rather than problem disbursements that may have occurred 4 to 7 years ago.

**Joint Staff.** Accounting records for the Joint Staff as of June 30, 1999, showing \$429.8 million in unliquidated obligations, were not reliable. We selected a sample of the 13 unliquidated obligations exceeding \$500,000 from FYs 1993 through 1997 appropriations totaling \$11.6 million. We asked Joint Staff personnel to validate the 13 unliquidated obligations, which showed no transactions for at least 1 year. Four weeks after we gave the request to Joint Staff personnel, they provided us with limited documentation showing that \$2.3 million in obligations was valid. Table 3. shows the status of the \$11.6 million in unliquidated obligations reviewed.

**Table 3. Status of Unliquidated Obligations for the Joint Staff**

<u>Status</u>	<u>Amount (millions)</u>
Goods and services had been received and paid for, but disbursements were not recorded in the accounting records.	\$ 4.0
Joint Staff personnel could not provide information showing the status of the obligations.	4.8
Work was completed; funds were not used and were available for deobligation.	0.4
Errors were found in the accounting records.	0.1
Unliquidated obligations were valid.	<u>2.3</u>
<b>Total</b>	<b>\$11.6</b>

Joint Staff personnel had not obtained information showing the status of \$4.8 million because current points of contact and other information were not readily available and because Joint Staff personnel considered other responsibilities a higher priority. Joint Staff personnel stated that they emphasized the importance of reviewing negative unliquidated obligations rather than unliquidated obligations that did not show a negative balance.

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## **Impact on the Statement of Budgetary Resources**

The audit work showed that the unliquidated obligations<sup>7</sup> that will be reported on the FY 1999 Statement of Budgetary Resources for the Other Defense Organizations will be materially misstated, and therefore cannot be relied on to accurately represent the status of obligations.

The USD(C), when establishing the requirement to review unliquidated obligations, acknowledged that the “failure to perform periodic review of outstanding commitments and obligations not only contributes to inaccurate accounting reports but also can adversely effect the Department’s attempts to eliminate unmatched disbursements and negative unliquidated obligations.” Prior audits by the Inspector General, DoD, have reported that DFAS made adjustments at the Department level to force accounting records to match U.S. Treasury records. This audit showed that disbursements were not recorded in the accounting records and that those accounting discrepancies contributed to discrepancies in the consolidating financial statements. Funds holders at the agency level can help resolve those discrepancies by reviewing unliquidated obligations, identifying problems, and requesting that DFAS make adjustments and corrections.

## **Responsibility for Unliquidated Obligations**

The combined efforts of DFAS and Other Defense Organizations will be needed to resolve and correct inaccuracies in unliquidated obligations caused by the failure to record disbursements or incorrect posting of disbursements. DFAS provided disbursing, accounting, and reporting services for the Other Defense Organizations, and must become more involved in helping to correct errors in unliquidated obligations. Although BMDO, DARPA, and the Joint Staff neither made nor recorded disbursements in accounting records, all Defense organizations need to make reasonable efforts to ensure that reported unliquidated obligations are as accurate as possible, whether or not the organizations perform accounting functions.

DFAS is instituting procedures that will give accounting offices online access to transactions reported by disbursing stations. Joint reviews by DFAS and Other Defense Organizations can identify the causes of discrepancies in accounting records, and corrective actions can be taken as needed. DFAS has recognized a material management weakness in the lack of an interface between contract payment and accounting systems and is working to correct that problem. Therefore, we are not making any recommendations to DFAS in this report regarding the review of unliquidated obligations.

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<sup>7</sup>Unliquidated obligations are shown as “Obligated Balance, Net - End of Period” on the Statement of Budgetary Resources.

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## **Recommendations, Management Comments, and Audit Response**

**Added and Renumbered Recommendations.** As a result of additional audit work, Recommendation A.1. is added to the final report. We renumbered draft Recommendations A.1., A.2., and A.3. as A.2., A.3., and A.4.

**A.1. We recommend that the Under Secretary of Defense (Comptroller) publish guidance included in its May 14, 1996, Memorandum, "Quarterly Reviews of Commitments and Obligations," in DoD Regulation 7000.14-R, "Financial Management Regulation."**

**Management Comments Required.** This recommendation was added to the final report. We request that the Under Secretary of Defense (Comptroller) provide comments to the final report.

**A.2. We recommend that the Under Secretary of Defense (Comptroller) establish procedures to:**

- a. Track compliance with its policy requiring Defense organizations to submit reports showing the status of efforts to validate obligations.
- b. Direct the heads of Defense organizations that do not confirm the validity of obligations to explain why the organization is unable to confirm the accuracy of reported obligations.

**Management Comments Required.** The Under Secretary of Defense (Comptroller) did not comment on the recommendations. We request that he provide comments on the final report.

**A.3. We recommend that the Director, Ballistic Missile Defense Organization and the Director, Joint Staff, prepare and follow written procedures for reviewing and verifying unliquidated obligations at least three times each year, which should include guidance for financial management personnel to:**

- a. Maintain a current list of points of contact who can validate the status of each obligation.
- b. Validate that balances reported in the accounting records are consistent with goods and services received.
- c. Obtain billing and payment histories from contract administrative offices and disbursing stations to ensure that materials or services received and disbursements made on a specific contract or obligation match the balances reported in the accounting records, if the balance exceeds \$100,000 and the account had no activity for at least 1 year.
- d. Send information obtained on the status of unliquidated obligations to the Defense Agency Financial Services Office and request that accounting records be updated and corrected.

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**Management Response.** BMDO concurred and stated that it will prepare written procedures for conducting triannual reviews by March 2000 and will begin conducting triannual reviews by the third quarter of FY 2000. The Joint Staff agreed that unliquidated obligations were overstated, but did not agree that the condition was related to any failure of the Joint Staff to perform reviews. The Joint Staff also noted an error in the draft report, which incorrectly stated that an obligation for \$164,000 was recorded in the wrong fiscal year. The Joint Staff concurred with the recommendation.

**Audit Response.** The Joint Staff's comments were not fully responsive to the recommendation because they did not provide specific actions to be taken. In response to the final report, we request that the Joint Staff provide specific information on how the recommendation will be implemented. Reference to the \$164,000 in obligations entered in the incorrect fiscal year was omitted from the final report.

**A.4. We recommend that the Directors, Ballistic Missile Defense Organization, Defense Advanced Research Projects Agency, and Joint Staff, submit required reports to the Under Secretary of Defense (Comptroller) confirming that reviews of unliquidated obligations have been completed or explaining why not and stating corrective actions that are planned.**

**Management Comments.** BMDO and DARPA concurred and will submit the required report to the USD(C) beginning in the third quarter of FY 2000. The Joint Staff concurred with the recommendation.

**Audit Response.** The Joint Staff comments were not fully responsive to the recommendation because they did not provide specific actions to be taken. We request that the Joint Staff provide specific comments in response to the final report on how and when they will comply with the recommendation.

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## **Finding B. Prompt Recording of Obligations**

BMDO, DARPA, and the Joint Staff were generally able to provide adequate supporting documentation for obligations recorded in accounting records. However, improvements were needed to ensure that obligation documents were promptly received and entered into accounting records. A review of \$808.9 million in reported obligations showed that \$323.9 million in obligations was not entered into accounting records within the required time periods, and \$4.2 million in obligations was recorded in an incorrect fiscal year. Obligations were not promptly recorded because controls were not in place to ensure that executing agents promptly provided obligating documents for input into accounting records and that information was promptly entered. Unless obligations are promptly recorded, the accounting records will not reflect all obligations executed, and the required financial statements will not be correct without adjustments to budgetary reports.

### **Policies and Procedures for Supporting and Recording Obligations**

**Policies for Recording and Supporting Obligations.** DoD Regulation 7000.14-R, the DoD "Financial Management Regulation," volume 3, "Budget Execution--Availability and Use of Budgetary Resources," December 1996, requires obligations to be promptly recorded and provides guidance and required documentary evidence of those transactions. The three organizations reviewed were generally able to provide sufficient supporting documentation for the obligations incurred during FY 1999. That documentation included:

- copies of signed contracts (to include modifications) or purchase orders showing the specific amount of an obligation,
- signed acceptance of Military Interdepartmental Purchase Requests,
- valid travel orders, or
- memorandums signed by the person authorized to obligate funds.

The USD(C) provided additional guidance in a February 26, 1996, memorandum to DoD organizations, stating that "obligations should be recorded at the time the legal obligation is incurred, or as close to the time of incurrence as is possible." The memorandum allowed up to 10 calendar days to record the obligation, except for obligations of at least \$100,000, which should be recorded in the official accounting records in the same month that obligations were incurred. The USD(C) had not formalized the additional guidance in DoD Regulation 7000.14-R. However, USD(C) personnel informed us that they consider the guidance from the February 1996 memorandum to be current USD(C) policy. Although the guidance in the February 1996 memorandum had not been incorporated into DoD 7000.14-R as a requirement, it provides a good yardstick for determining whether organizations are recording obligations promptly, as required by DoD Regulation 7000.14-R.

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**Procedures for Recording Obligations.** The procedures used by BMDO, DARPA, and the Joint Staff for entering obligations into their accounting systems varied significantly. In FY 1999, DFAS began using a new accounting system, DJAS, for BMDO. BMDO personnel entered obligations directly into the accounting system and maintained documentation to support those obligations. DARPA personnel entered obligations into a database, which was transmitted nightly to the accounting office for electronic entry into the Washington Headquarters Services Allotment Accounting System, the accounting system used by the accounting office for DARPA. The Joint Staff faxed supporting documentation for obligations to the accounting office, which manually entered the obligations into the Washington Headquarters Services Allotment Accounting System. Both the accounting office and the Joint Staff maintained supporting documentation for those obligations.

## Timeliness of Recording Obligations

**BMDO.** BMDO personnel did not consistently record obligations within 10 days after being incurred. We reviewed 47 obligations totaling \$441.5 million that BMDO recorded during the first 9 months of FY 1999. Of the 47 obligations, 28 obligations, totaling \$276.6 million, were recorded an average of 72 days after the obligations were executed. The delays occurred partially because BMDO was using a new accounting system, which was not readily available until December 1999, and because BMDO did not have written procedures for entering obligations. BMDO personnel also stated that non-BMDO personnel who executed obligations from funding provided by BMDO did not always promptly forward the obligating documents to BMDO financial management personnel who recorded the obligations in DJAS. This delayed the recording of obligations. Because BMDO did not stamp the obligating documents with the date of receipt, we were unable to document delays in receiving obligation documents.

**DARPA.** DARPA and accounting office personnel recorded \$63.5 million of the \$79.4 million obligations from our sample in the DARPA accounting records within 10 days, and another \$11.1 million in obligations within 30 days.<sup>8</sup> Those delays were partially caused by problems in uploading the data from DARPA headquarters, Arlington, Virginia, to the accounting office at the DFAS Indianapolis Center. For example, the accounting office delayed posting \$4.9 million in obligations received from DARPA for more than 10 days in June 1999 because it could not upload information received from DARPA into the accounting system. Delays in recording obligations also occurred because DARPA did not always receive obligation documentation from organizations that performed work for DARPA on a reimbursable basis.

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<sup>8</sup>As previously discussed, DARPA personnel did not directly enter obligations into its accounting system. The obligation database that DARPA transmitted nightly to the DFAS Indianapolis Center could take a few days to be uploaded into the official DARPA accounting records maintained by the accounting office. We do not believe DARPA personnel were responsible for those delays. By working together, DARPA and the accounting office may be able to reduce the time needed to record obligations in the accounting records.

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Of the 81 obligations sampled, 9 obligations, totaling \$4.8 million, were entered into accounting records 30 to 310 days after the obligations were executed. The 9 obligations included 6 obligations, totaling \$4.2 million, that were entered in a different fiscal year than the year the obligation was created. For example, an obligation for \$2.75 million was incurred on September 30, 1998. DARPA recorded the obligation on May 12, 1999, because the DoD organization responsible for providing reimbursable support to DARPA delayed sending the obligating document. Such errors distort the obligations incurred each year, as shown in the annual Reports on Budget Execution (SF 133).

DARPA should also establish procedures to ensure that organizations with the authority to obligate DARPA funds submit their obligation documents promptly to DARPA. These procedures, along with increased management attention, should help to ensure that the organizations that created the obligation documents forward those documents promptly to DARPA for entry into the accounting records.

**Joint Staff.** Of the \$288 million in obligations in our sample, accounting office personnel recorded \$256.6 million into Joint Staff accounting records within 10 days. Another \$25.1 million was recorded in less than 30 days. Of the 81 obligations sampled, the remaining 9 obligations, totaling \$6.3 million, were entered in the accounting records in 30 to 84 days. Joint Staff personnel stated that they did not always promptly receive obligation documents from the organizations responsible for executing the obligations.

The delays in recording obligations also occurred partially because Joint Staff personnel faxed obligation documents to accounting office personnel to enter into accounting records, rather than entering the obligations more directly into accounting records, as BMDO and DARPA personnel did, and because accounting office personnel did not always promptly record obligation documents. The Joint Staff requires that all obligation documents be sent to its financial management branch, which maintains copies of obligation documents faxed to the accounting office to be entered into the accounting records. Reducing the added step in processing should help reduce the time to record obligations and eliminate the need for duplicate documentation to support obligations.

**Impact on Financial Records.** Until BMDO, DARPA, and the Joint Staff strengthen internal controls and ensure that obligations are promptly entered into the accounting records, obligations shown in accounting records will not accurately represent the obligations incurred.

## **Recommendations, Management Comments, and Audit Response**

**B.1. We recommend that the Directors, Ballistic Missile Defense Organization, Defense Advanced Projects Research Agency, and Joint Staff, establish controls to ensure that obligations are promptly received and recorded in accounting records. Controls should include procedures to**

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**monitor outstanding commitments that are expected to be obligated, and to help ensure that organizations authorized to obligate funds respond promptly when obligations have been executed.**

**Management Comments.** BMDO and DARPA concurred and provided details on how they planned to ensure that obligations are promptly received and recorded in the accounting records. The Joint Staff also concurred with the recommendation.

**Audit Response.** Although the Joint Staff concurred with the recommendation, the comments were not fully responsive. We request that the Joint Staff provide specific actions they plan to take to implement the recommendation in responding to the final report.

**B.2. We recommend that the Director, Joint Staff, and the Director, Defense Finance and Accounting Service Indianapolis Center, develop procedures requiring Joint Staff personnel to enter obligations into a file that can be directly downloaded into the accounting records maintained by the Defense Agency Financial Services Office.**

**Management Comments.** DFAS concurred and will work with the Joint Staff to develop procedures for Joint Staff personnel to enter obligations directly into a file to be downloaded into the accounting records. The Joint Staff concurred with the recommendation. The Joint Staff disagreed with the implication that records maintained by both the accounting office and the funds holder are duplicative because DoD Regulation 7000.14-R, volume 14, requires records to be maintained by both DFAS and the funds holder. The Joint Staff also disagreed with the statement in the draft report that "delays in recording obligations also occurred partially because Joint Staff personnel faxed obligation documents to accounting office personnel to enter into accounting records, rather than entering the obligations more directly into accounting records. . . ."

**Audit Response.** Although the Joint Staff concurred with the recommendation, the comments were not fully responsive because no actions were specified. We agree that both the Joint Staff and DFAS should maintain duplicate records if the DFAS accounting office enters obligations into the accounting system. However, if the Joint Staff enters those obligations as we recommended, DoD Regulation 7000.14-R does not require records to be retained by DFAS.

The results of our audit sample showed that it took the DFAS accounting office supporting the Joint Staff an average of 13 days to record obligating documents received from the Joint Staff into the accounting records. Therefore, the DFAS accounting office was partially responsible for the delays in recording obligations. If the Joint Staff personnel enter those obligations into a file for downloading into the accounting system, the added step of faxing obligation documents to DFAS could be eliminated. We request that the Joint Staff provide specific actions in response to the recommendation in the final report.

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## Finding C. Adequacy of Accounting Controls

Improvements were needed to ensure that financial data reported by the accounting office and the Defense Agency Team at the DFAS Indianapolis Center were adequately supported. Amounts on the Reports on Budget Execution prepared by the Defense Agency Team did not match supporting records submitted by the accounting office and did not match the related trial balance. For example, the accounting office made at least \$40.8 million of pen-and-ink changes to the FY 1998 balances carried forward, but did not enter those changes into the accounting system during FY 1999. Also, a computer program at the DFAS Indianapolis Center incorrectly increased undelivered orders by \$871.9 million for DARPA because of an undetected error; and the DFAS personnel who compiled the Reports on Budget Execution included \$14.3 million in obligations after the accounting records for FY 1998 were closed. These conditions were not detected because accounting office personnel:

- did not compare and reconcile the official Reports on Budget Execution to supporting accounting records,
- had not developed standard operating procedures with detailed guidance for accountants, and
- had not received adequate training in understanding the correlation between the general ledger and required financial reports.

Unless corrective action is taken, the Reports on Budget Execution will not be reconcilable to related trial balances; financial statements created from both sets of data will be inconsistent; discrepancies between the reports will contribute to year-end unsupported adjustments; and the risk of errors will remain high.

### Report Reconciliations

**Required Reconciliations.** DoD Regulation 7000.14-R, volume 6, "Reporting Policy and Procedures," February 1996 (with changes through 1998), requires that before a report is released to a recipient, DFAS is to validate that the reported amounts agree with the official accounting records and reported amounts for the same data elements for one reporting period are consistent in all similar financial reports. To comply with that guidance, the DFAS Indianapolis Center should establish procedures for reconciling the Reports on Budget Execution to accounting records as shown in the trial balance.

**Reconciliations at the DFAS Indianapolis Center.** The accounting office did not have procedures and controls in place to compare the official Reports on Budget Execution to trial balances and supporting financial records. The accounting office provided accounting support, which included maintaining the official accounting records and trial balances, to several organizations. As part

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of the support, the accounting office prepared 1176 Reports<sup>9</sup> or an electronic file with budgetary data from the accounting records and forwarded that budgetary data to the Defense Agency Team. The Defense Agency Team used the budgetary data to prepare the final Reports on Budget Execution required by OMB.

At year's end, the Defense Agency Team forwarded the Reports on Budget Execution and the accounting office forwarded trial balances to the Chief Financial Officers Team at the DFAS Indianapolis Center, which prepared the financial statements for the Other Defense Organizations. Differences between budgetary reports and trial balances caused the CFO (Chief Financial Officers) Team to make unsupported adjustments. Therefore, budgetary reports must be reconciled at the lowest possible level to ensure consistency when the reports are used to prepare the financial statements. Supportable differences should be disclosed and all other differences corrected.

The accounting office had both the supporting accounting records and the related trial balance and could compare the official Reports on Budget Execution prepared by the Defense Agency Team. The lack of procedures for comparing trial balances to the Reports on Budget Execution is a material management control weakness.

## Differences in Financial Reports

The Report on Budget Execution for DARPA for June 30, 1999, and supporting financial records and related trial balances, showed material differences totaling \$876.9 million for obligations incurred, the balance forward, and undelivered orders.

**Obligations Incurred.** Obligations incurred as shown on the Report on Budget Execution prepared by the Defense Agency Team were \$5 million less than those recorded in the trial balance and reported by the accounting office to the Defense Agency Team. The difference primarily occurred because DARPA submitted \$14.3 million of obligations, which included \$5 million for DARPA headquarters, directly to the Defense Agency Team for inclusion in the Report on Budget Execution during October 1998, after the accounting office had closed the records for FY 1998.<sup>10</sup> Upon receipt of the obligation data from DARPA, the Defense Agency Team increased the reported obligations incurred and decreased the unobligated balance available in the Report on Budget Execution. However, the Defense Agency Team did not notify the accounting office of the change to the Report on Budget Execution so that the accounting office could disclose the differences on the trial balance and ensure consistency. As a result, the Report on Budget Execution and the trial balance did not match in FY 1998. During FY 1999, DARPA forwarded the \$5 million in FY 1998

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<sup>9</sup>The 1176 Report is a previous version of the Report on Budget Execution used by the accounting office to report budgetary data to the Defense Agency Team. The 1176 Report is prepared from information recorded in an organization's trial balance. The Defense Agency Team uses that information, along with various adjustments, to prepare the official Report on Budget Execution (SF 133).

<sup>10</sup>DARPA requested that the Defense Agency Team include the obligations in the Report on Budget Execution because the obligations were incurred during FY 1998 but not identified until after the accounting office's records were closed.

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obligations, along with FY 1999 obligations, for inclusion in FY 1999 accounting records. Therefore, obligations reported on the FY 1999 Reports on Budget Execution differed from those shown in the accounting records.

**Balance Forward.** The obligated balance brought forward<sup>11</sup> on the June 30, 1999, Report on Budget Execution did not match the balance forward on the 1176 Report prepared by accounting office because the Defense Agency Team decreased the balance forward for the \$5 million of obligations that was recorded after the FY 1998 accounting records were closed. In addition, the accounting office made \$.1 million of pen-and-ink changes to the 1176 Reports submitted to the Defense Agency Team at the end of FY 1998, but did not enter those changes into the accounting system during FY 1999. We expanded our review and determined that the accounting office made at least \$40.8 million of year-end pen-and-ink changes that affected unobligated balances brought forward, but did not enter those changes into the accounting systems during FY 1999.

**Undelivered Orders.** The Defense Agency Team incorrectly increased undelivered orders reported on the June 30, 1999, Report on Budget Execution for DARPA by \$871.9 million more than the amount reported by the accounting office. A computer program used by the Defense Agency Team to prepare the Report on Budget Execution caused the error. Instead of adjusting accounts payable, as was done when making adjustments to accounting records for the Military Departments, the computer program incorrectly adjusted undelivered orders for amounts reported in the cash book.<sup>12</sup> We identified the problem, and the Defense Agency Team promptly corrected the program and researched additional problems with reporting accounts payable.

**Benefit of Reconciliations.** If accounting office personnel had performed the reviews and comparisons required by DoD Regulation 7000.14-R, they might have identified inconsistencies between the Reports on Budget Execution, the supporting accounting records, and the trial balances. The accounting office could have taken corrective action, and in cooperation with the Defense Agency Team and Other Defense Organizations, could have resolved the discrepancies. A strong, coordinated effort is needed to achieve the consistency necessary to prepare reliable financial statements.

## Standard Operating Procedures

**Required Written Procedures.** DoD Instruction 5010.40, "Management Control Program Procedures," August 28, 1999, requires that procedures be written to establish management controls over the accounting and reporting functions. Written procedures should outline how a specific task is to be performed, what followup action should be taken, personnel to be contacted, decision points for notifying management of problems, timelines for resolution and followup actions, and procedures for documenting efforts to solve

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<sup>11</sup>The unobligated balance brought forward is the ending unobligated balance of funds available at the end of a fiscal year that is brought forward to the subsequent year's Report on Budget Execution.

<sup>12</sup>The cash book is a balance of disbursements and collections reported to the U.S. Treasury, which include disbursements and collections that have not yet been recorded in an organization's accounting records.

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problems. Procedures should include flow charts to show the flow of data through a specific process, and tools such as quality control checklists for accountants to use for specific procedures.

**Written Procedures at the Accounting Office.** Accounting controls at the accounting office were weak because the accounting office did not have adequate written procedures to comply with OMB and DoD regulations. Written procedures were not in place to:

- ensure that reports were visually reviewed for obvious errors and abnormalities,
- identify required year-end procedures and ensure that pen-and-ink changes were entered into the accounting systems during the subsequent year, and
- reconcile related reports, explain differences in footnotes, and resolve discrepancies.

## **Training of Accounting Personnel**

Accounting office personnel did not demonstrate a knowledge of Federal financial accounting commensurate with the core competencies established by the Joint Financial Management Improvement Program (JFMIP).<sup>13</sup> Personnel could not identify and explain basic accounting events and transactions for which they were responsible. For example, accounting personnel could not explain the impact on the general ledger of entering funding, obligations, or expenditures into the Washington Headquarters Services Allotment Accounting System and DJAS.

Review of the training records of seven accountants in the accounting office showed that one accountant had received training in the U.S. Government Standard General Ledger before the audit; three accountants took the training in August 1999, during the audit. Training records showed that one of the seven accountants had taken courses in Government accounting, and another accountant had taken an appropriations law course. However, none of the accountants had received formal training in the preparation of Reports on Budget Execution.

Unless accounting personnel understand how financial data are transferred to the general ledger and subsequently used to prepare financial reports, they do not have adequate knowledge to review reports and work back to the transactions to resolve problems. To effectively review the reports and determine whether the correct relationships exist, personnel need training in both the general ledger and the accounting concepts that support the financial reports. The JFMIP recommends that personnel receive training in basic Federal accounting principles, appropriations law, the U.S. Government Standard General Ledger, and OMB circulars and bulletins. Courses are available that address the standard general ledger and preparation of financial reports.

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<sup>13</sup>JFMIP-ET-99-8, Core Competencies, "Accountants in the Federal Government," requires all accountants at all levels to understand basic Federal accounting concepts, standards, reports, and statements.

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## **Opportunities for Improvement**

Controls over financial reporting at the DFAS Indianapolis Center can be strengthened by developing and implementing procedures for reconciling the Reports on Budget Execution to the trial balances, documenting differences, and resolving unexplained differences. The procedures for making these improvements would not place undue burdens on accounting personnel if appropriately planned, and would assist in identifying mismatches between the Reports on Budget Execution and trial balances before the financial statements are compiled. Additional improvements could also be made by developing a set of clearly written operating procedures. Use of written procedures would help the accounting office use consistent procedures, and guidance would be readily available in case of employee turnover.

## **Recommendations and Management Comments**

**C. We recommend that the Director, Defense Finance Accounting Service Indianapolis Center:**

**1. Develop standard operating procedures for the Defense Agency Financial Services Office to:**

**a. Require accounting personnel to compare the official Reports on Budget Execution for the organizations they support with the accounting records for those organizations, and explain the differences in appropriate footnotes.**

**Management Comments.** DFAS concurred and stated that by February 29, 2000, it will revise standard operating procedures to require accounting personnel to compare the official Reports on Budget Execution to the accounting records and explain any differences in appropriate footnotes.

**b. Prepare a quality control checklist for accountants to use at year's end, which summarizes specific visual reviews for obvious errors and abnormalities, footnote requirements, and followup actions to be taken when compiling financial reports.**

**Management Comments.** DFAS concurred and plans to complete its quality control checklist for use by accountants by February 29, 2000.

**c. Require that when the Defense Agency Financial Services Office makes pen-and-ink changes to budgetary reports forwarded to the Defense Agency Team, those changes be recorded in the accounting records.**

**Management Comments.** DFAS concurred and expects to establish procedures and processes by March 31, 2000, to ensure that pen-and-ink changes to budgetary reports are properly recorded in accounting records.

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**2. Establish procedures requiring the Defense Agency Team and the Defense Agency Financial Services Office to jointly ensure that any differences between accounting records and Reports on Budget Execution are coordinated, reconciled, and explained in appropriate footnotes to the Reports on Budget Execution.**

**Management Comments.** DFAS concurred and expects to complete procedures by March 31, 2000, to ensure that any differences between accounting records and Reports on Budget Execution are coordinated, reconciled, and explained.

**3. Train accountants in the Defense Agency Financial Services Office on how various transactions affect balances in the U.S. Government Standard General Ledger, the interrelationship between budgetary and proprietary accounts, how Reports on Budget Execution are generated using data for which accountants are responsible, and how to trace amounts in financial reports back to transactions in specific accounts to resolve problems.**

**Management Comments.** DFAS concurred and plans to complete training of its accountants by September 29, 2000.

## **DFAS Comments on Management Control Program and Audit Response**

**Management Comments.** DFAS nonconcurred with our conclusion that a lack of report reconciliations by its accounting office was a material management control weakness. However, DFAS agreed with the audit recommendations to correct the weakness, and stated that actions were underway to conduct joint reviews with customers of the accounting office to correct obligation related discrepancies.

**Audit Response.** We continue to believe that the lack of report reconciliation by the accounting office was a material management control weakness for the DFAS Indianapolis Center. However, DFAS plans to implement the recommendations should correct that weakness.

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## Finding D. Fielding the Defense Joint Accounting System

The test phase of DJAS demonstrated a need for a well-developed implementation program. Personnel at the accounting office and at BMDO did not have sufficient training to understand and use DJAS and needed additional guidance on how to prepare for the transition to DJAS. The condition occurred because the DJAS program management office had not developed a formal implementation plan. Unless corrective action is taken, these problems could reoccur when DJAS is fielded to additional Other Defense Organizations during FY 2000.

### DJAS Background

**System Overview.** DJAS is a prototype financial management and accounting program intended to serve as the core financial management system for the Other Defense Organizations that receive accounting support from the DFAS Indianapolis Center. DFAS chose DJAS as the migratory system for the DFAS Indianapolis Center and its operating locations. During FYs 2000 through 2002, the DFAS Indianapolis Center anticipates fielding the system to the Other Defense Organizations that it supports. The purpose of DJAS is to provide automated support for all phases of financial management accounting and process financial information in a sequence similar to the workflow of the accounting cycle. DJAS is a transaction-based general ledger system from which data can be extracted to prepare reports using standard query language.

**Prototype Testing.** Before fielding the system, the DJAS program management office, in cooperation with BMDO, conducted a live test of the prototype system during FY 1999. BMDO and the accounting office used DJAS to perform routine accounting for BMDO. While reviewing the financial data supporting BMDO, we identified opportunities for improving the overall process of fielding DJAS.

### Transition To DJAS

**Training.** Personnel at the accounting office and BMDO consistently expressed a need for additional training to help them understand and use DJAS. Personnel needed training to understand how DJAS converts accounting transaction data into the general ledger and uses the general ledger to prepare the trial balance and other financial reports. They also needed training to navigate throughout DJAS and to generate reports using standard query language. During the audit, DJAS was in a test stage, and the DJAS Functional Steering Group acknowledged the need for additional training as one of the lessons learned from the test phase.

**Transition Guidance.** The DJAS program management office can improve the guidance provided to the accounting office and Other Defense Organizations before fielding the system. The program office did not have an official transition strategy for fielding DJAS at BMDO, but supplied guidance to BMDO on procedures that should be applied before using DJAS. However, BMDO

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did not disseminate the guidance to personnel involved in the transition, and personnel were not well-informed about the transition process.

The DJAS program management office is developing a transition strategy that includes a checklist. The strategy should include advance guidance that addresses the type of data review and backup that should be performed, the documents needed to process transactions, technical system requirements, and the specific duties of personnel at the supporting accounting office and Other Defense Organizations. The DJAS program management office acknowledged that the transition process could be improved if the transition checklist required organizations to confirm that guidance from the program management office was given to agency personnel involved in the transition process.

**Future Fielding.** Currently, the DJAS program management office plans to field the DJAS system at four additional Other Defense Organizations during FY 2000. Those sites include:

- the Defense Prisoner of War/Missing Personnel Office,
- the Defense Medical Programs Activity,
- the Defense Security Cooperative Agency, and
- the Office of Economic Adjustment.

Before fielding DJAS at additional Other Defense Organizations, the DJAS program management office should complete the implementation strategy and prepare an adequate training program for personnel expected to use DJAS.

## Problem Disbursements

DJAS was designed to reject disbursement transactions unless a valid matching obligation had already been recorded; however, disbursing stations submitted transactions to be recorded for which matching obligations did not exist in DJAS. When a matching obligation could not be found, accounting personnel considered the transaction to be a problem disbursement and recorded those transactions on a separate spreadsheet. As of August 1999, problem disbursements at BMDO totaled \$16 million. Accounting personnel did not footnote the trial balance or the Reports on Budget Execution to disclose the amount of disbursements recorded on the spreadsheet. Therefore, problem disbursements not recorded in DJAS were excluded from the BMDO trial balance and Reports on Budget Execution prepared during FY 1999. Because problem disbursements were excluded from the official accounting records and financial reports, the FY 1999 trial balance and Reports on Budget Execution for BMDO were incomplete.

The DJAS program management office acknowledged receiving problematic financial data from external sources and the need to modify DJAS to ensure that financial recording and reporting were complete. An updated version of DJAS, released in December 1999, allows problem disbursements to be entered into the accounting records. Therefore, we are not making any recommendations to correct this problem.

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## **Recommendations and Management Comments**

**D. We recommend that the Director, Defense Finance and Accounting Service, Indianapolis Center:**

**1. Expand the training for personnel who use the Defense Joint Accounting System to explain how the system transfers accounting transaction data to the general ledger; how the system compiles data from the general ledger to financial reports; and how accounting personnel can produce reports using standard query language.**

**Management Comments.** DFAS concurred and completed DJAS training for current personnel in December 1999.

**2. Complete an implementation plan before fielding the Defense Joint Accounting System at the Other Defense Organizations. The plan should include written guidance for Other Defense Organizations and accounting offices that addresses the type of data review and backups that should be performed before the transition; the documentation needed to process transactions; technical requirements necessary to operate the system; and the specific duties of the personnel at the organization and the supporting accounting office.**

**Management Comments.** DFAS concurred and in December 1999 completed an implementation plan for DJAS that includes written guidance on data review, backups, documentation needed to process transactions, technical requirements necessary to operate the system, and specific duties of personnel using the system.

**3. Update the transition checklist to require Other Defense Organizations to confirm that guidance supplied by the program management office was given to personnel who participated in the transition.**

**Management Comments.** DFAS concurred and completed updating the transition checklist in December 1999.

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## Appendix A. Audit Process

### Scope

**Work Performed.** We reviewed the procedures and related controls at the headquarters elements of BMDO (DoD funding limit designation [limit] 2520), DARPA (limit 1320), the Joint Staff (limit 1220), and the accounting office responsible for recording and reporting obligations in the accounting records. Although we reviewed general procedures and controls used by the accounting office, we focused on accounting for BMDO, DARPA, and the Joint Staff because these three organizations received most of the funds among the organizations that received support from the accounting office. For FY 1999, BMDO reported \$902.7 million, DARPA reported \$652.5 million, and the Joint Staff reported \$446.2 million in obligations incurred for the limits for which the accounting office provided full accounting support. (Most funds received by these three organizations were allotted to the Military Departments and were not accounted for by the accounting office.) We reviewed written operating procedures, obligation instruments, disbursement documents, Reports on Budget Execution, trial balances, and unliquidated obligation reports. We also interviewed personnel to determine the methodology used to record, validate, and liquidate obligations.

**DoD-Wide Corporate-Level Government Performance and Results Act Goals.** In response to the Government Performance and Results Act, the Secretary of Defense established 2 DoD-wide corporate-level goals, 8 subordinate performance goals, and performance measures. This report pertains to achievement of the following goal, subordinate performance goal, and performance measures:

- **FY 2001 Corporate-Level Goal 2:** Prepare now for an uncertain future by pursuing a focused modernization effort that maintains U.S. qualitative superiority in key warfighting capabilities. Transform the force by exploiting the Revolution in Military Affairs, and reengineer the Department to achieve a 21st century infrastructure. **(01-DoD-2)**
- **FY 2001 Subordinate Performance Goal 2.5:** Improve DoD financial and information management. **(01-DoD-2.5)**
- **FY 2001 Performance Measure 2.5.1:** Reduce the number of noncompliant accounting and financial systems. **(01-DoD-2.5.1)**
- **FY 2001 Performance Measure 2.5.2:** Achieve unqualified opinions on financial statements. **(01-DoD-2.5.2)**

**DoD Functional Area Reform Goals.** Most DoD functional areas have also established performance improvement reform objectives and goals. This report pertains to achievement of the following functional area objectives and goals.

**Financial Management Objective:** Strengthen internal controls.  
**Goal:** Improve compliance with the Federal Managers' Financial Integrity Act of 1982. **(FM-5.3)**

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**General Accounting Office High-Risk Area.** The General Accounting Office has identified several high-risk areas in the Department of Defense. This report provides coverage of the Defense Financial Management high-risk area.

## Methodology

**Review of Obligations.** We reviewed obligations recorded in accounting records for BMDO, DARPA, and the Joint Staff during the 9-month period ended June 30, 1999, to determine whether obligations were entered accurately and recorded promptly in accounting records and supported by the required documentation. Our review included the following random samples:

- **BMDO.** We randomly selected 21 obligation document numbers (27 obligating documents) equal to at least \$1 million and 20 obligation document numbers less than \$1 million, for a total of \$441.5 million in obligations reviewed out of \$889.7 million in obligations recorded during the period.
- **DARPA.** We randomly selected 30 obligation document numbers (65 obligating documents) equal to at least \$1 million and 15 obligation document numbers (16 actual obligating documents) for obligations from \$100,000 to \$1 million, for a total of \$79.4 million in obligations reviewed out of \$544.6 million in obligations recorded during the period.
- **Joint Staff.** We randomly selected 22 obligation document numbers (59 obligating documents) equal to at least \$1 million and 16 obligation document numbers (22 actual obligating documents) for obligations from \$100,000 to \$1 million, for a total of \$288 million in obligations reviewed out of \$307.2 million in obligations recorded during the period.

**Unliquidated Obligations.** We reviewed the validity of unliquidated obligations shown in accounting records for DARPA and the Joint Staff as of June 30, 1999, and for BMDO as of August 4, 1999. We focused our reviews on unliquidated obligations from FY 1993 through 1997 funds, for which authority to incur new obligations had expired. Our reviews included the following judgmental samples.

- **BMDO.** We selected a judgmental sample of 47 unliquidated obligations, each at least \$100,000, totaling \$59.4 million out of \$158.6 million of undelivered orders from expired appropriations. Our conclusions regarding the validity of the unliquidated obligations were based on information from points of contact provided by the BMDO Comptroller's office.
- **DARPA.** We selected 15 unliquidated obligations that had not changed in at least 3 years, each at least \$500,000 and totaling \$39.7 million, from \$573.3 million in expired appropriations. We contacted contracting personnel and obtained information to determine whether the unliquidated obligations were valid.

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- **Joint Staff.** We selected 13 unliquidated obligations from expired appropriations, each at least \$500,000 and totaling \$11.6 million, from \$150.4 million in unliquidated obligations. The 13 unliquidated obligations were selected because they represented unliquidated obligations of at least \$500,000 that had remained constant for at least 1 year.

**Audit Period and Standards.** We performed this financial-related audit from June through October 1999, in accordance with standards issued by the Comptroller General of the United States, implemented by the Inspector General, DoD, based on the objectives of the audit and the limitations discussed in the scope and methodology. We included tests of management controls considered necessary.

**Computer-Processed Data.** We relied on the following computer-processed data. For BMDO, we obtained information on obligations and disbursements from DJAS. For DARPA and the Joint Staff, we obtained information on obligations and disbursements from the Washington Headquarters Services Allotment Accounting System. We assessed the reliability of computer-processed data obtained from the two systems by performing limited independent validation tests using supporting documentation, and noted that the systems reported the information as it was entered. However, our review showed that we could not rely on the reported balances of unliquidated obligations as shown in the computer-produced accounting records, because disbursements made for obligations were not properly recorded.

**Contacts During the Audit.** We visited and contacted individuals and organizations within DoD. Further details are available on request.

## Management Control Program

DoD Directive 5010.38, "Management Control Program," August 26, 1996, requires DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of those controls.

**Scope of Review of Management Control Program.** We reviewed the adequacy of BMDO, DARPA, and the Joint Staff's management controls over reviewing and validating unliquidated obligations and for accurately recording obligations in the accounting records. We also reviewed the adequacy of management controls in the accounting office for recording, reviewing, and reporting financial data for the Other Defense Organizations, and the DFAS Indianapolis Center's self-evaluation of management controls over financial reporting.

**Adequacy of Management Controls.** We identified a material management control weakness at the DFAS Indianapolis Center's accounting office, as defined by DoD Instruction 5010.40. Procedures and controls over financial reporting did not ensure that similar types of financial reports were reconciled and pen-and-ink changes were entered into the accounting records. Recommendations C.1. through C.3., if implemented, will strengthen controls at the accounting office and improve financial reporting. Material management control weaknesses in DFAS procedures and systems also caused the

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unreliability of reported unliquidated obligations for DARPA, BMDO, and the Joint Staff. Since 1990, DFAS has reported in its Annual Statements of Assurance the weaknesses in the interface between contract payments and accounting systems and the magnitude of unmatched disbursements. DARPA, BMDO, and the Joint Staff are not responsible for making or recording disbursements and cannot correct that material weakness. However, performing required reviews of unliquidated obligations will reduce the adverse effects of material management control weakness caused by the lack of interface in DFAS accounting systems. A copy of the report will be provided to the senior official responsible for management controls at the DFAS Indianapolis Center.

**Adequacy of Management's Self-Evaluation.** Managers at the DFAS Indianapolis Center identified Department 97 accounting, performed by the accounting office, as an assessable unit, and correctly identified the associated risk as high. They did not identify the lack of report reconciliations by the accounting office as a material management control weaknesses in the DFAS FY 1999 Annual Statement of Assurance because they were not aware of the weakness.

## **Summary of Prior Coverage**

The Inspector General, DoD, issued audit reports during the past 5 years on each of the three organizations—BMDO, DARPA, and Joint Staff—discussed in this audit report.

Inspector General, DoD, Report No. 96-215, "Financial Management at the Defense Advanced Research Projects Agency," August 28, 1996.

Inspector General, DoD, Report No. 96-083, "Accounting Support for Preparation of Joint Chiefs of Staff Financial Statements," March 12, 1996.

Inspector General, DoD, Report No. 96-068, "Accounting Support for Preparation of Ballistic Missile Defense Organization Financial Statements," February 9, 1996.

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## **Appendix B. Report Distribution**

### **Office of the Secretary of Defense**

Under Secretary of Defense (Comptroller)  
Deputy Comptroller (Program/Budget)  
Deputy Chief Financial Officer  
Director for Accounting Policy

### **Joint Chiefs of Staff**

Director, Joint Staff

### **Department of the Army**

Auditor General, Department of the Army

### **Department of the Navy**

Naval Inspector General  
Auditor General, Department of the Navy

### **Department of the Air Force**

Assistant Secretary of the Air Force (Financial Management and Comptroller)  
Auditor General, Department of the Air Force

### **Other Defense Organizations**

Director, Ballistic Missile Defense Organization  
Director, Defense Advanced Research Projects Agency  
Director, Defense Contract Audit Agency  
Director, Defense Finance and Accounting Service  
    Director, Defense Finance and Accounting Service Indianapolis Center  
Director, Defense Logistics Agency  
Director, National Security Agency  
    Inspector General, National Security Agency  
Inspector General, Defense Intelligence Agency

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## **Non-Defense Federal Organizations**

Office of Management and Budget  
General Accounting Office  
National Security and International Affairs Division  
Technical Information Center

## **Congressional Committees and Subcommittees, Chairman and Ranking Minority Member**

Senate Committee on Appropriations  
Senate Subcommittee on Defense, Committee on Appropriations  
Senate Committee on Armed Services  
Senate Committee on Governmental Affairs  
House Committee on Appropriations  
House Subcommittee on Defense, Committee on Appropriations  
House Committee on Armed Services  
House Committee on Government Reform  
House Subcommittee on Government Management, Information, and Technology,  
Committee on Government Reform  
House Subcommittee on National Security, Veterans Affairs, and International  
Relations, Committee on Government Reform

# Ballistic Missile Defense Organization Comments

Final Report  
Reference



DEPARTMENT OF DEFENSE  
BALLISTIC MISSILE DEFENSE ORGANIZATION  
7100 DEFENSE PENTAGON  
WASHINGTON, DC 20301-7100

JAN 31 2000

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE  
ATTN: FINANCE AND ACCOUNTING DIRECTORATE

SUBJECT: Audit Report on Accounting Procedures and Controls Over  
Financial Data Supporting Other Defense Organizations  
(Project No. 9FA-2018)

The following management comments are provided in response  
to the recommendations applicable to the Ballistic Missile  
Defense Organization (BMDO) in subject audit report.

Recommendation A.2.: Reliability of Unliquidated Obligations

Concur. Now that DJAS implementation is well along, the  
BMDO financial staff is gaining increased familiarity and  
competency with the reports module. Accordingly, we will begin  
conducting the required tri-annual reviews of unliquidated  
obligations during the 3rd quarter of this fiscal year. We will  
also develop written procedures incorporating the audit  
recommendations by March 2000, thus providing basis for  
conducting the 3<sup>rd</sup> quarter reviews.

Renumbered  
as Recom-  
mendation  
A.3.

Recommendation A.3.: Reliability of Unliquidated Obligations

Concur. BMDO will submit the required reports to USD(C)  
commencing with the 3<sup>rd</sup> quarter review cited above.

Renumbered  
as Recom-  
mendation  
A.4.

Recommendation B.1.: Prompt Recording of Obligations

Concur, noting that the principal cause for delays has been  
corrected now that DJAS is fully operational. The controls to  
ensure obligations are promptly received and recorded will be in  
place by the end of the 2<sup>nd</sup> quarter. The controls will include  
an automatic follow-up procedure on all direct cite MIPRs when  
the resulting obligating document(s) are not received within 90  
days.

My point of contact for this action is Mr. Ben Hackman (703)  
604-3452, DSN 664-3452.

HARVEY A. PLAYER  
Director, Financial Management

# Defense Advanced Research Projects Agency Comments

Final Report  
Reference

<p>Renumbered as Recom- mendation A.4</p>	<p> DEFENSE ADVANCED RESEARCH PROJECTS AGENCY 3701 NORTH FAIRFAX DRIVE ARLINGTON, VA 22203-1714</p> <p>JAN 24 2000</p> <p>MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING, DOD IG</p> <p>SUBJECT: Audit Report on Accounting Procedures and Controls Over Financial Data Supporting Other Defense Organizations (Project No 9FA-2018)</p> <p>The Defense Advanced Research Projects Agency (DARPA) has reviewed the subject draft audit report and provides the following comments:</p> <p>DARPA concurs with recommendation A.3. DARPA's review of the unliquidated obligations (ULOs) has been expanded to include feedback from DARPA's allotment holders confirming that ULO reviews have been completed. The allotment holder confirmations will enable DARPA to comply with the Under Secretary of Defense (Comptroller) confirmation reporting requirement due March 16, 2000.</p> <p>DARPA concurs with recommendation B.1. DARPA performs daily commitment reconciliations to determine if obligations have been received but not posted to the accounting system and reviews the Military Interdepartmental Purchase Request actions to ensure timely receipt of reimbursable acceptances. Other reports are generated on an ad hoc basis that highlight any outstanding commitments for which no obligation activity has occurred within the last 90-120 days. Additionally, DARPA developed an obligation tracking report and implemented procedures to monitor the status of obligation documents from organizations authorized to obligate DARPA funds. This report identifies organizations that do not adhere to the prompt submission of obligating documents. Inquiries are forwarded to negligent fund holders and, when necessary, DARPA personnel visit organizations that repeatedly impact DARPA's ability to comply with the prompt recording of obligation requirements.</p> <p> William E. Lehr, III Comptroller</p>
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# Defense Finance and Accounting Service Comments



## DEFENSE FINANCE AND ACCOUNTING SERVICE

1931 JEFFERSON DAVIS HIGHWAY  
ARLINGTON, VA 22240-5291

FEB 10 2000

DFAS-HQ/ASF

MEMORANDUM FOR DIRECTOR, FINANCE AND ACCOUNTING  
DIRECTORATE, OFFICE OF THE INSPECTOR  
GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Audit Report on Accounting Procedures and Controls Over Financial Data  
Supporting Other Defense Organizations (Project No. 9FA-2018)

Our response to the subject audit is attached. The primary point of contact (POC)  
is Mr Wayne Ebaugh, (703) 607-2857 or DSN 327-2857, and the secondary POC is  
Mr. Mike Bryant, (703) 607-1562 or DSN 327-1562.

*Edward A. Harris*  
Edward A. Harris  
Director for Accounting

Attachment:  
As stated

cc:  
DFAS-HQ/DI  
DFAS-IN/P

**DFAS Comments on DoDIG Audit Report on Accounting Procedures and  
Controls Over Financial Data Supporting Other Defense Organizations  
(Project No. 9FA-2018)**

**General Comments**

The report states in the third paragraph of the Executive Summary that improvements are needed in validating unliquidated obligations, promptly obtaining and recording obligations, training accounting personnel, and establishing effective accounting procedures and controls. The Defense Finance and Accounting Service (DFAS) is revising all standard operating procedures (SOPs) to incorporate improved/streamlined processes. The development of a competency-training plan to identify accounting personnel who need training, necessary types of training, and target dates to implement the training is complete. The DFAS will continue efforts to improve obligation-related issues for all customers. The DFAS Indianapolis Center (DFAS-IN) is conducting its FY 2000 joint reviews for all customers during January and February.

**Internal Control Comments**

The report states on pages 24-25 under the heading "Management Control Program" that material management control weaknesses exist in DFAS procedures and systems causing unreliability of reported unliquidated obligations for the Defense Advanced Research Projects Agency, the Ballistic Missile Defense Organization, and the Joint Chiefs of Staff. The DFAS-IN identified in the 1999 Annual Assurance Statement this material weakness relating to problem disbursements. We recognize the impact on management's controls. Milestones and corrective actions are addressed in the 1999 Annual Assurance Statement with a targeted correction date of September 30, 2003.

The DFAS nonconcurs with the auditors identifying the lack of report reconciliations by the accounting office as a material management control weakness. We believe the implementation of the suggested recommendations will preclude further discrepancies in this area. Actions are underway to implement the recommendations stated below. Our efforts will continue regarding obligation related issues for all customers. We are conducting our FY 2000 joint reviews for all customers during January and February.

**Responses to Recommendations**

**Recommendation B.2.** We recommend that the Director, Joint Staff, and the Director, Defense Finance and Accounting Service Indianapolis Center, develop procedures requiring Joint Staff personnel to enter obligations into a file that can be directly downloaded into the accounting records maintained by the Defense Agency Financial Services Office.

**DFAS Management Comments:** Concur. The DFAS is willing to work with the Director, Joint Staff, to develop procedures for Joint Staff personnel to enter obligations into a

file that can be downloaded into accounting records maintained by the Defense Agency Financial Services Office. The DFAS action and estimated completion date are contingent upon the Joint Staff's concurrence

**Estimated Completion Date:** August 31, 2000

**Recommendation C.** We recommend that the Director, Defense Finance Accounting Service Indianapolis Center:

**Recommendation C.1.** Develop standard operating procedures for the Defense Agency Financial Services Office to:

**Recommendation C.1.a.** Require accounting personnel to compare the official Report(s) on Budget Execution for the organizations they support with the accounting records for those organizations, and explain the differences in appropriate footnotes.

**DFAS Management Comments:** Concur. The Defense Agency Financial Services Office (DAFSO) is revising its SOPs to require accounting personnel to compare the official Report(s) on Budget Execution for the organizations they support with the accounting records for those organizations and to explain the differences in appropriate footnotes.

**Estimated Completion Date:** February 29, 2000

**Recommendation C.1.b.** Prepare a quality control checklist for accountants to use at year-end, which summarizes specific visual reviews for obvious errors and abnormalities, footnote requirements, and followup actions to be taken when compiling financial reports

**DFAS Management Comments:** Concur. The DAFSO is developing a quality control checklist for accountants to use monthly and at year-end. This checklist will be included in the appropriate SOPs

**Estimated Completion Date:** February 29, 2000.

**Recommendation C.1.c.** Require that when the Defense Agency Financial Services Office makes pen-and-ink changes to budgetary reports forwarded to the Defense Agency Team, those changes be recorded in the accounting records

**DFAS Management Comments:** Concur. The DAFSO is coordinating with the Defense Agency Team (DAT) to establish procedures and processes designed to ensure pen-and-ink changes to budgetary reports are properly recorded in the accounting records.

**Estimated Completion Date:** March 31, 2000

**Recommendation C.2.** Establish procedures requiring the Defense Agency Team and the Defense Financial Services Office to jointly ensure that any differences between accounting records and the Report(s) on Budget Execution are coordinated, reconciled, and explained in appropriate footnotes to the Report(s) on Budget Execution.

**DFAS Management Comments:** Concur. The DFAS-IN is establishing procedures requiring the DAT and the DAFSO to jointly coordinate, reconcile, and explain differences between accounting records and the Reports on Budget Execution.

**Estimated Completion Date:** March 31, 2000

**Recommendation C.3.** Train accountants in the Defense Agency Financial Services Office in the effects of various transactions on balances in the U.S. Government Standard General Ledger, the interrelationship between budgetary and proprietary accounts, how budget execution reports are generated using data for which accountants are responsible, and how to trace amounts in financial reports back to transactions in specific accounts to resolve problems.

**DFAS Management Comments:** Concur. The DFAS-IN will begin training accountants in the DAFSO on the effects of various transactions on balances in the U.S. Government Standard General Ledger, the interrelationship between budgetary and proprietary accounts, how budget execution reports are generated using data for which accountants are responsible, and how to trace amounts in financial reports back to transactions in specific accounts to resolve problems. Training began February 1, 2000, and should be completed in September 2000.

**Estimated Completion Date:** September 29, 2000

**Recommendation D.** We recommend that the Director, Defense Finance Accounting Service, Indianapolis Center:

**Recommendation D.1.** Expand the training for personnel who use the Defense Joint Accounting System to explain how the system transfers accounting transaction data to the general ledger; how the system compiles data from the general ledger to financial reports; and how accounting personnel can produce reports using standard query language.

**DFAS Management Comments:** Concur. The DFAS-IN has trained personnel on Defense Joint Accounting System (DJAS) on how the system transfers accounting transaction data to the general ledger and on how they can produce reports using standard query language.

**Completion Date:** December 31, 1999

**Recommendation D.2.** Complete an implementation plan before fielding the Defense Joint Accounting System at the Other Defense Organizations. The plan should include written guidance for Other Defense Organizations and accounting offices that addresses the type of data review and backups that should be performed before the transition; the documentation

needed to process transactions; technical requirements necessary to operate the system; and the specific duties of the personnel at the organization and the supporting accounting office.

**DFAS Management Comments:** Concur. The DFAS completed an implementation plan on the DJAS that includes written guidance addressing the type of data review and backups that should be performed before the transition, the documentation needed to process transactions, technical requirements necessary to operate the system, and specific duties of personnel at Other Defense Organizations and the supporting accounting office.

**Completion Date:** December 31, 1999

**Recommendation D.3.** Update the transition checklist to require Other Defense Organizations to confirm that guidance supplied by the program management office was given to personnel who participated in the transition

**DFAS Management Comments:** Concur. The DFAS completed updating the transition checklist to require Other Defense Organizations to confirm that guidance supplied by the program management office was given to personnel who participated in the transition

**Completion Date:** December 31, 1999

# Joint Staff Comments



THE JOINT STAFF  
WASHINGTON, DC

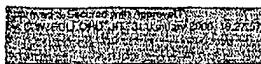
Reply ZIP Code:  
20318-0300

DJSM-0081-00  
31 January 2000

MEMORANDUM FOR THE INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

Subject: Review of DODIG Draft Report

1. In response to the DODIG draft report,<sup>1</sup> we appreciate the recognition that the document provides regarding the primary objectives of documenting and evaluating procedures and controls for recording obligations and reviewing the validity of unliquidated obligations. However, we are concerned that, in the area of unliquidated obligations, the audit appears to assign primary responsibility to the funds holder for researching and verifying disbursements that have not been posted to the accounting records. The draft report should be rewritten to accurately reflect the magnitude of overstated unliquidated obligation balances as a function of unposted disbursements rather than the level of effort in conducting required quarterly reviews.
2. Enclosed are more specific comments and a response for each recommendation.
3. The Joint Staff point of contact is Lieutenant Colonel Fletcher, 697-7833



C.W. FULFORD, JR.  
Lieutenant General, U.S. Marine Corps  
Director, Joint Staff

Enclosure

Reference:

1. ODODIG memorandum, 30 November 1999, "Audit Report on Accounting Procedures and Controls Over Financial Data Supporting Other Defense Organizations (Project No 9FA-2018)"

ENCLOSURE

JOINT STAFF COMMENTS ON THE DODIG DRAFT REPORT

"ACCOUNTING PROCEDURES AND CONTROLS OVER FINANCIAL DATA  
SUPPORTING OTHER DEFENSE ORGANIZATIONS"

Page 3, Finding A, Reliability of Unliquidated Obligations. Agree in finding that unliquidated obligations are significantly overstated. Do not agree that this condition is a result of failure to conduct required quarterly reviews. In 1999, we conducted quarterly reviews on 28 January, 22 April, and 28 July. Paragraph 1 of the referenced OSD(Comptroller) memorandum, 14 May 1996, "Quarterly Reviews of Commitments and Obligations," states, "A failure to perform periodic reviews of outstanding commitments and obligations not only contributes to inaccurate accounting reports but also can adversely effect the Department's attempts to eliminate unmatched disbursements and negative unliquidated obligations." Research to correct negative unliquidated obligations (NULOs) or unmatched disbursements (UMDs) leads to subsequent postings against valid obligations. We have visibility of UMDs and NULOs and, therefore, have a start point for conducting research. We do not have visibility of in-transit disbursements that have not been posted to the agency's accounting records. Therefore, we believe it is correct to focus the quarterly review on these two categories of problem disbursements, especially as they are a stated objective of the referenced OSD guidance

Page 8, Recommendations A.1 thru A.3 Concur.

Page 9, Finding B, Prompt Recording of Obligations. DODIG auditors have acknowledged that their finding that a FY 1998 obligation for \$164,000 went unrecorded until FY 1999 is erroneous. Nonconcur in statement that the delays in recording obligations also occurred partially because our personnel faxed obligation documents to accounting office personnel to enter into accounting records rather than entering the obligations more directly into the accounting records as BMDO and DARPA personnel did. In fact, the amounts cited show we had the best timeliness rate, with 89 percent of audited obligations recorded within 10 days vice 80 percent for DARPA, while 63 percent of BMDO obligations took an average of 72 days to record. Nonconcur also in implication that records maintained by both the accounting office and funds holder are duplicative. DODFMR, Volume 14, Chapter 1, "Administrative

Renumbered  
as Recom-  
mendations  
A.2 through  
A.4.

Deleted  
reference to  
\$164,000

Enclosure

## **Audit Team Members**

This report was prepared by the Finance and Accounting Directorate, Office of the Assistant Inspector General for Auditing, Department of Defense.

F. Jay Lane  
Salvatore D. Guli  
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## INTERNET DOCUMENT INFORMATION FORM

**A . Report Title Accounting Procedures and Controls Over Financial Data Supporting Selected Other Defense Organizations**

**B. DATE Report Downloaded From the Internet: 03/09/99**

**C. Report's Point of Contact: (Name, Organization, Address, Office Symbol, & Ph #):** OAIG-AUD (ATTN: AFTS Audit Suggestions)  
Inspector General, Department of Defense  
400 Army Navy Drive (Room 801)  
Arlington, VA 22202-2884

**D. Currently Applicable Classification Level:** Unclassified

**E. Distribution Statement A:** Approved for Public Release

**F. The foregoing information was compiled and provided by:**  
**DTIC-OCA, Initials: \_\_VM\_\_ Preparation Date 03/09/99**

The foregoing information should exactly correspond to the Title, Report Number, and the Date on the accompanying report document. If there are mismatches, or other questions, contact the above OCA Representative for resolution.